



ISSUES IN BRIEF

Diffusion of Microfinance in Development: The Role of U.S. Philanthropic Foundations



Emily Bryant

The post-WWII pursuit of international development has long involved U.S. philanthropic foundations (Heydemann and Kinsey 2010), though how particular development approaches gain foundation support over time is unclear. One prominent development approach has been microfinance, which provides small-scale financial services to low-income, often marginalized clients in an effort to alleviate poverty and empower borrowers. Microfinance has been adopted by organizations in more than 100 countries and represents a reliance on market mechanisms to combat poverty. While we know much about the scope and effects of microfinance (Roy 2010), we know less of how support for this international development strategy has diffused across the philanthropic foundations that have funded this effort.

This policy brief examines the diffusion of cross-border microfinance funding — support for microfinance efforts internationally — to analyze the U.S. philanthropic foundations that adopted this practice over time and assess their role in advancing this particular poverty alleviation strategy. My analysis finds that microfinance was first adopted by a small number of foundations in the late 1970s, spread gradually during the 1980s and 1990s, then rapidly diffused in the 2000s. This diffusion was due to the efforts of early adopters — older, larger, and reputable foundations — whose grantmaking was relatively small but nonetheless crucial. These foundations served as institutional entrepreneurs who not only funded this development innovation but also promoted it by building an organizational field — via infrastructure development, institution building, and diffusion of the microfinance model worldwide — in which it became institutionalized. Through their early grantmaking, substantial resources, and prominent standing, these foundations constructed the necessary infrastructure that facilitated other smaller, younger, and lesser known foundations to also fund microfinance. Understanding what characterizes foundations and their support sheds light on the diffusion of international development strategies and points to how NGO workers and development practitioners might harness foundations' capacity for institutional entrepreneurship.

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Microfinance and Development Funding

In 1983, economist Muhammad Yunus founded Bangladesh's Grameen Bank based on a group lending model in which poor clients would invest their low-interest micro-loan in an entrepreneurial activity and be held accountable for repayment through group peer pressure and collective responsibility (Yunus 2007). Predicated on a perception of the poor as entrepreneurial, microfinance endeavors to empower those in poverty to lift themselves out of desolate conditions and into financial stability (Roy 2010). This represents a departure from not only previously dominant approaches to international development, but also from past U.S. foundation grantmaking practices. Early development efforts focused on national economic growth through capital and technical knowledge transfer. When these efforts failed to provide either adequate or equitable growth, development practitioners shifted to a "basic needs" approach to assist the world's poor (McMichael 2012). During this time, internationally-oriented foundations maintained a focus on agricultural development, higher education, and civil society development in newly independent nation-states, while engaging in the promotion of arms control and conflict resolution (Heydemann and Kinsey 2010). However, increasingly widespread perceptions of government as ineffective and inefficient ushered in free market ideologies and market-based initiatives like microfinance and its "hand-ups" rather than "hand-outs" approach. U.S. philanthropic foundations provided some of the initial support for these efforts (Roy 2010), including a 1979 Ford Foundation grant to Yunus for an experimental credit project, and two years later, an \$800,000 recoverable loan to the Grameen Bank.

There were, however, some trials and tribulations: in 1987, USAID opposed a bill to increase funding for microfinance in Latin America, preferring "trickle-down" development to working directly with the poor (Haase 2012); later, critics expressed concerns over practices that may leave clients in recurring cycles of indebtedness (Biswas 2010). Still, microfinance garnered widespread attention and praise. In 1995, the World Bank established its Consultative Group to Assist the Poor (CGAP) to diffuse the microfinance model globally; the first Microcredit Summit Campaign (made possible through foundation grants) was held in 1997 to increase worldwide access to microfinance; 2005 was declared the UN's "Year of Microcredit;" and the following year, Yunus was awarded the Nobel Peace Prize. These accomplishments served to elevate and professionalize the field of microfinance and establish it as a legitimate strategy for international development.

Foundations as Innovators and Entrepreneurs

For new innovations, policies, or practices to diffuse across fields, sociology's "new institutional" theory points to three institutional mechanisms that lead organizations within an organizational field to adopt common practices and converge toward similarity over time. An organizational field consists of "those organizations that, in the aggregate, constitute a recognized area of institutional life" (DiMaggio and Powell 1983, 148), such as the fields of international development, education, or healthcare. Under the assumption that organizations are not only rational, but also subject to an imperative of legitimacy, actors may face *normative pressure*, stemming from the influence of professionals and experts; *mimetic pressure*, the compulsion to imitate competitors or peers perceived as more successful, particularly under conditions of uncertainty; or *coercive pressure*, in which organizations respond to demands from those they depend upon (DiMaggio and Powell 1983). New institutionalism anticipates that early adopters of new practices are driven by rational motives, such as the desire to improve organizational performance or efficiency. At a certain tipping point, however, these innovative practices become sufficiently widespread that they constitute new standards and expectations, adopted in later stages by actors seeking to garner legitimacy in the eyes of others. Thus, early adopters are often

pioneering leaders in their organizational fields and initiate the normative, mimetic, or coercive pressures levied against their peers.

While few studies have examined the diffusion process across philanthropic foundations, more attention has been paid to foundations' capacity for leadership and innovation. Though often perceived as risk-averse and subject to issues of legitimacy (such that elite, reputable institutions or professionalized social movement organizations are preferred grantees; see Aksartova 2003), foundations also act as agents of social change through institutional entrepreneurship, in which individuals or organizations "champion a particular model of social order and attempt to build new arenas of social life...to institutionalize that model" (Bartley 2007, 231). These actors not only initiate changes divergent from those in practice, but also "actively participate in [their] implementation" (Battilana, et al. 2009, 68), in part through resource mobilization, whether in the form of financial capital, authority and status, or social networks. The institutional entrepreneurship of foundations has been documented across multiple arenas of social life and often involves the development of experts and professional organizations (DiMaggio 1991; Bartley 2007). These studies indicate, much as new institutionalism suggests, that the institutional entrepreneurs of the philanthropic field are older, larger, well-resourced, and reputable foundations. They are often the most innovative and entrepreneurial, partly due to the autonomy and legitimacy needed to take risks on pioneering projects.

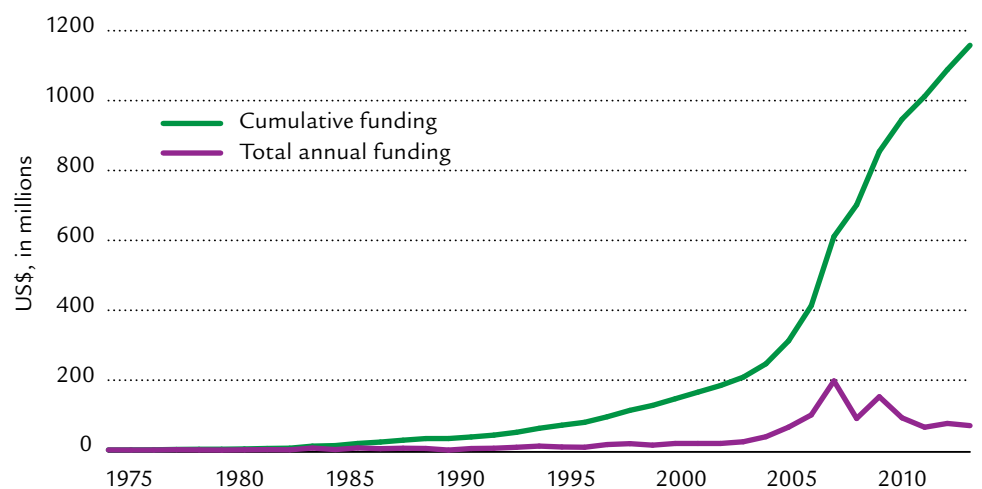
Methods of Analysis and Findings

For this analysis, I constructed the first longitudinal dataset of cross-border microfinance funding, which allowed me to trace the diffusion process, by drawing upon two sources of data from the Foundation Center: the annual Foundation Grants Index (published 1970-2001) and the Foundation Directory Online. Using these comprehensive data on U.S. foundation grantmaking, I collected all records of grants – whether to international recipients or channeled overseas by U.S.-based organizations – related to the provision of financial goods and services to low-income or poor individuals or communities in non-industrialized countries, as well as any broader services, research, or conferences that supported microfinance, microcredit, micro-enterprises, and micro-entrepreneurs. I also gathered data on foundation characteristics, such as asset value and age. My analysis reflects grantmaking between 1975–2013, as inputs into the Directory records lag by multiple years. In addition, I conducted semi-structured, in-depth interviews with program officers at 12 foundations previously or presently engaged in microfinance funding. These were conducted and recorded (with respondents' permission) via phone or Skype in Spring 2016 and later transcribed and analyzed.

Overall Findings

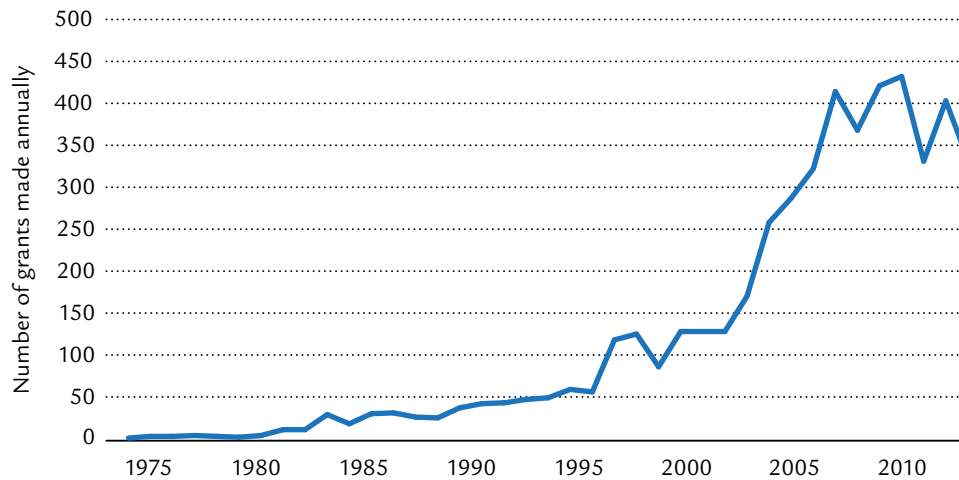
Between 1975 and 2013, more than 600 different foundations made more than 4,600 grants toward international microfinance, the annual and cumulative values of which are illustrated in Figure 1. The number

Figure 1. Total Annual and Cumulative Foundation Funding for Cross-Border Microfinance, 1975–2013



All grants are represented in 2013 values, adjusted for inflation.

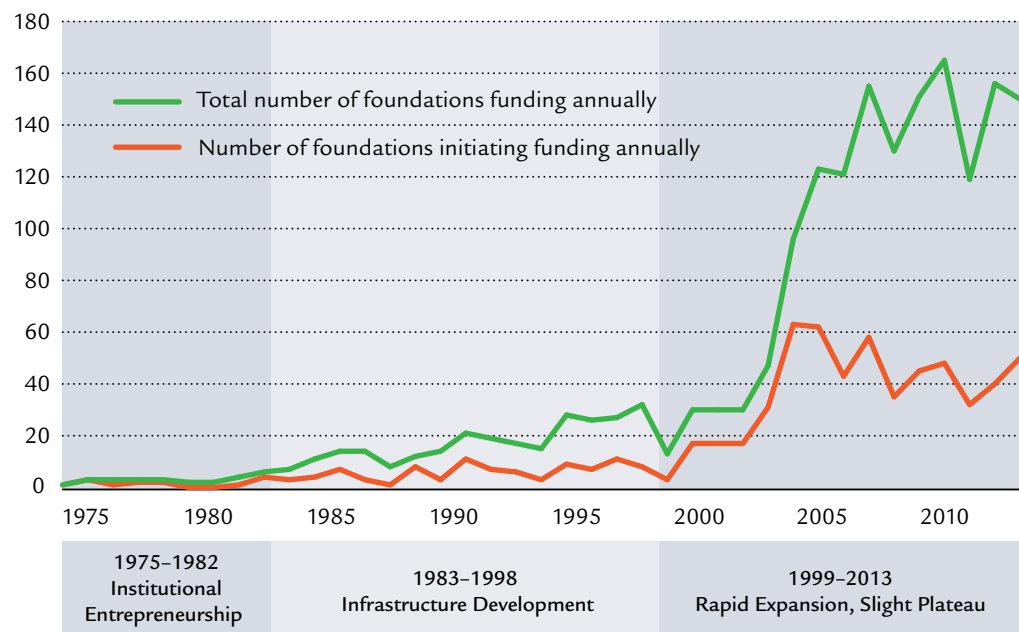
Figure 2. Annual Foundation Grantmaking for Cross-Border Microfinance, 1975–2013



of grants made over this period demonstrates a parallel trend, as depicted in Figure 2. Foundations’ grantmaking practices in support of cross-border microfinance funding indeed reflect a pattern of diffusion.

Specifically, this process occurs in several waves: a handful of very early, initial adopters, followed by a larger number of relatively early adopters, then a substantial influx in foundation support, which plateaus in recent years. These waves are illustrated in Figure 3, which depicts, for each year,

Figure 3. Foundation Support for Cross-Border Microfinance, 1975–2013



both the number of foundations funding cross-border microfinance, as well as the number that initiate their funding. Following is a discussion of each wave.

1975–1982: Institutional Entrepreneurship

The first wave of diffusion highlights the role of the earliest adopters. The grantmaking of just ten foundations in this period proves critical to the support microfinance garners in later years. During this period, 31 grants were made to international microfinance efforts, totaling more than \$4.6 million (in 2013 values, adjusted for inflation). Figure 4 provides a magnified version of Figure 1 to illustrate this crucial period of funding.

The foundations that adopted the practice of cross-border microfinance funding in the first wave are older (averaging 73 years of age), very large (in terms of assets), and reputable philanthropic

foundations that funded microfinance for, on average, eight years. They include the Ford, Public Welfare, and Tinker Foundations, the Rockefeller Brothers Fund, and the Carnegie Corporation of New York. These foundations possess significantly greater assets than those that followed and are far more likely to explicitly declare an interest in international grantmaking. Importantly, the grants made during this period helped lay the groundwork for later foundations to support cross-border microfinance efforts and indicate a departure from previous international development approaches. It is in this sense that these foundations, and those that joined them in the 1980s and 1990s, served as the institutional entrepreneurs of microfinance funding.

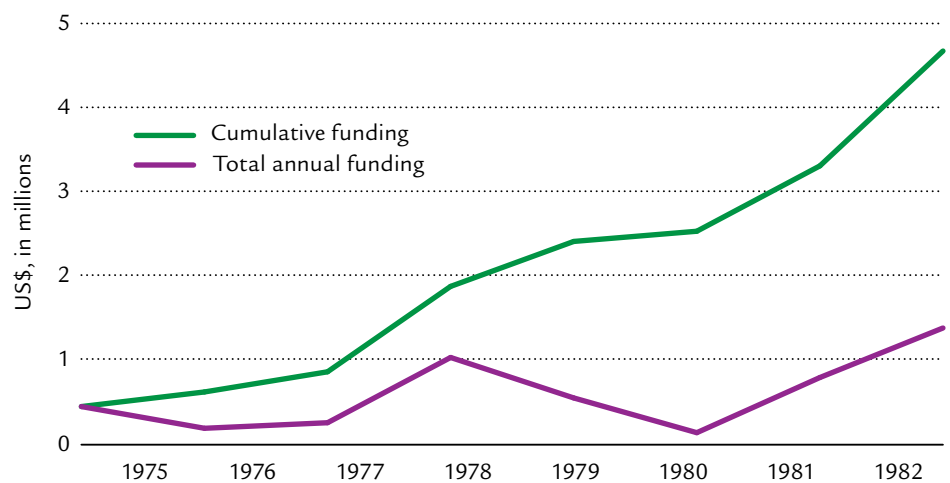
Roughly one-third of these grants supported ACCION International, a leading microfinance organization that initiated its microfinance program in 1973 in Latin America. Grants to ACCION in the late 1970s were made to “help establish credit for women” and “provide bank credit and technical assistance to small businesses in poor urban areas of Brazil.” Many other grants supported in-country development foundations, governments, and university research on the importance of microfinance and means to improve access, such as a grant from the Rockefeller Brothers Fund “for [a] program

assisting poor rural and urban individuals and groups to secure credit for small businesses and community projects in Trinidad and Tobago” and one from the Ford Foundation to the Republic of Bangladesh “to set up [a] special division on women in [the] Ministry of Agriculture to attract women scholars for work with citizens’ advisory board to study rural women’s access to credit.” In 1982, the Ford Foundation also funded the research and evaluation of the aforementioned recoverable loan it provided the Grameen Bank three years prior. While this grantmaking period began without a coordinated giving strategy either within or across foundations, one program officer describes how it soon shifted to a focused and intentional effort toward “building a whole...ecosystem of organizations,” or an organizational field.

1983–1998: Infrastructure Development

Nearly 100 foundations initiated their support during this period. All supporting foundations within the 15-year span made 746 grants, totaling more than \$109 million. These early adopters are comparatively younger (averaging 54 years of age), less likely to declare an explicit interest in international causes (a decrease from 62.5% to 57%), and funded microfinance for a shorter duration (four years on average). The work of these foundations continued to lay the groundwork for later grantmaking, primarily through infrastructure development. In 1992, for example, the Ford Foundation provided funds for “strengthening and expanding [an] umbrella credit union organization in Mexico,” as well as for an “umbrella association of NGOs specialized in micro-enterprise credit in Peru.” Other institution-building activities included funding microfinance organizations located abroad (e.g., Self-Employed Women’s Association in India and Kenya Women Finance Trust), as well as to U.S.-based nonprofits that channel funds overseas, many of which emerged during this time and received foundation funding shortly thereafter.

Figure 4. Total Annual and Cumulative Foundation Funding for Cross-Border Microfinance, 1975–1982



All grants are represented in 2013 values, adjusted for inflation.

In addition to providing funding for diffusing the microfinance model worldwide — such as through the efforts of the Grameen Trust’s International Microenterprise Replication Project, funded by the MacArthur Foundation — foundations also sought to support staff training and program development at microfinance institutions. One grant, made by the Ford Foundation in 1985 to the University of Nigeria, supported a “training course for organizers of rural savings clubs and credit unions,” while another, in 1986, supported efforts to “expand membership in credit [a] cooperative serving low-income women engaged in income-generating projects” in East Java. Cumulatively, these efforts at infrastructure development (via support for credit associations), institution building (via support for new and existing microfinance institutions), and diffusion of the microfinance model (particularly via the Grameen Trust and continued support for ACCION) helped construct not only the field of international microfinance, but also a platform to which other, smaller and younger, foundations could contribute.

1999–2013: Rapid Expansion, Slight Plateau

By the late 1990s, the global field of microfinance was well established, described by one program officer as “a hot topic” generating “lots of buzz.” As grantmaking in the 2000s rose rapidly, an increasingly diverse pool of foundations began participating in the consolidation and expansion of the field. Both the number of grants and the number of foundations that adopted the practice of funding microfinance swiftly accelerated between 1999 and 2010. During this period nearly 400 foundations made more than 3,000 grants totaling nearly \$833 million. Still younger than their early adopter peers (these foundations were, on average, only 31 years old), they demonstrated even less of an explicit commitment to international causes and averaged three years of funding.

These foundations acknowledged the extant field and sought to make their own contribution, but within the framework set forth by the institutional entrepreneurs of years past. This reflects later adopters’ risk aversion and close attention to their peers’ practices, indicating both mimetic (imitating peers in times of uncertainty) and normative (influenced by professionals) pressures at work in the diffusion process. Program officers at these foundations expressed a desire to enter an established field in which they were not the only funder, and these foundations supported many of the same organizations their predecessors had for years (although numerous microfinance institutions emerged during the 2000s, including several online lending platforms). Many organizations, such as Pro Mujer, Opportunity International, and Grameen Foundation USA, continued to receive substantial foundation support in their efforts to, as a 2007 Cisco Systems Foundation grant states, “meet [the] global demand for microfinance.”

Because the reputation of grantees is an important factor in foundation decisions (Aksartova 2003), grantmakers often look to third-party rating systems or their peers for guidance. Those grantees that have been sufficiently vetted and demonstrate “proper” use of funds and fair practices are the safest choice for newcomers to microfinance funding. Early adopters had helped professionalize and legitimize many grantees that were later funded by foundations in this period. However, given the challenges microfinance faced in the 2000s, such as predatory lending and over-indebtedness, a number of grants in this decade also supported the identification and promotion of “best practices” in microfinance worldwide. This is particularly salient following the 2010 epidemic of farmer suicides in India, which precipitated the near collapse of the Indian microfinance industry (Biswas 2010).

Though a decline in total funding and the quantity of grants occurred in 2011, it may be premature to denote this a period of late adoption. From 2011 to 2013, more than 120 foundations initiated microfinance funding, making 1,067 grants — 356 per year compared to 262 annually between 1999 and 2010. These foundations were slightly younger (averaging 26

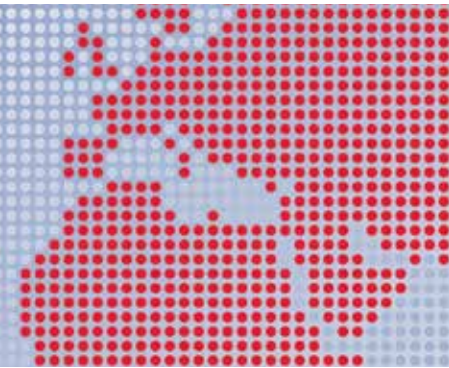
years of age) and provided less money than their predecessors. This suggests that, although microfinance may have reached its peak in the late 2000s, the infrastructure of the international microfinance field — built by older, larger, and reputable institutional entrepreneurs — has continued to uphold the status of this poverty alleviation approach. International microfinance grantees are still supported by younger, though somewhat larger foundations, thus signaling the durability and permanence of this market-based approach to poverty alleviation. However, given the field's cohesion by the late 2000s, it may be that later adopters feel their philanthropic impact can be maximized elsewhere, so we may see further declines in the coming years.

Conclusions

The initial foundations funding cross-border microfinance were older, larger, internationally-oriented, and reputable foundations that ultimately served as institutional entrepreneurs. In a break from both previous international development strategies and philanthropic grantmaking practices, they provided substantial support to the main proponents of microfinance. Importantly, they helped lay the groundwork for the diffusion of microfinance funding across the field of U.S. philanthropic foundations by building the infrastructure and institutions of the international microfinance field and supporting the worldwide diffusion of the microfinance model. This effort provided later adopters with appealing and reputable organizations to fund. Although the flows of philanthropic resources to international microfinance are small relative to official development assistance and other public donors (El-Zoghbi, et al. 2011), these institutional entrepreneurs provided more than material resources: their legitimacy, a symbolic resource, designated microfinance as an international development approach worthy of funding by later adopters.

While the World Bank and USAID, along with the leaders of the Grameen Bank and FINCA (another leading microfinance institution), did much to propagate the practice and worldwide diffusion of microfinance, the support of these international organizations only came after foundations took the initial funding risk, signaling the extent to which microfinance represented a distinct break from past practices, as well as the importance of mobilizing foundation resources in promoting its use. Though the global field of microfinance has been institutionalized through the efforts of both international organizations and foundations, it is infrequently an institutionalized funding practice at many foundations. Close to half the foundations in the dataset funded microfinance for only one year, and roughly one-third exhibit non-continuous funding (often of just a year or two). Only 15 foundations funded microfinance for longer than 11 years, most of which were larger foundations having adopted the practice in the late 1970s or 1990s. Yet this limited institutionalization does not deny the existence, nor the importance, of the institutional entrepreneurship undertaken by the early adopters of cross-border microfinance funding.

While examining how grantees utilized the funding they received or whether foundations grants were ultimately successful in combating poverty is beyond the scope of this research, this analysis illustrates the diffusion of microfinance funding across the field of U.S. foundations and explicates the role of early adopters' institutional entrepreneurship in this process. These findings carry implications for both the field of philanthropy and those in the international development arena. Given foundations' capacity for institutional entrepreneurship, these findings suggest that, for NGO workers and development practitioners aiming to pioneer new strategies, there is a particular direction in which to aim a part of their efforts: attempting to garner support from those foundations most likely to engage in institutional entrepreneurship. This is by no means an easy task, but one that may prove fruitful in amassing widespread support over time. ●



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